

Highlights of the Conference Agreement versus the Democratic Alternative

During floor debate on the budget resolution for 2001, Rep. John M. Spratt, Jr., Ranking Democratic Member of the House Budget Committee, offered a substitute budget resolution. That Democratic alternative was a ten-year budget plan running through 2010. The Republican conference agreement, in contrast, is only a five-year plan. Therefore, this section compares the Republican plan with the first five years of the Democratic alternative, and also compares a ten-year estimate of the Republican plan with the full ten years specified in the Democratic alternative⁶.

Table 1 summarizes the different uses the two plans make of CBO's projected on-budget surplus (the surplus excluding Social Security and the Postal Service)⁷.

Table 1: Comparing the Conference Agreement with the Democratic Alternative

Figures exclude Social Security; revenue or outlay changes in billions of dollars

	Five-year Totals			Ten-year Totals		
	Rep.	Dem.	Diff.	Rep.	Dem.	Diff.
CBO Surplus w/o Social Security	171	171		893	893	
Tax cuts	175	50	-125	875	201	-674
Medicare reform & drugs	40	40	0	155	155	0
Non-defense cuts	-102	-11	91	-312	-35	277
Defense increases	12	10	-2	8	34	26
Other mandatory policies	12	17	4	23	72	49
Interest cost of policies	21	17	-4	146	102	-44
Planned Surplus w/o Social Security	12	48	36	-2	365	367

May not add due to rounding.

*Figures in italics are estimates.*⁶

⁶ For an explanation of the methodology used to estimate the ten-year figures for the conference agreement, see footnote 4 on page 12, in the *Overview*.

⁷ With respect to the "off-budget" federal agencies, the two plans each reflect the repeal of the "Social Security earnings limit" for people age 65-69. Off-budget dollar figures differ only because the conference agreement uses a cost estimate reflecting faster enactment of that legislation.

The Democratic Plan is Balanced, While the Republicans Make Tax Cuts Their Top Priority

The conference agreement, like the House and Senate budget resolutions, devotes essentially all of CBO's projected on-budget surplus to tax cuts. This means that no resources will be left over to enhance the solvency of the Social Security and Medicare trust funds, or more generally to reduce debt in anticipation of the budgetary pressures that will arise when the baby boomers begin to retire at the end of this decade. Stated differently, it means that tax cuts are the Republicans only significant priority, and that little or nothing is left either for debt reduction or, in net, for current needs that require a national response. While the conference agreement increases some programs, such as defense and Medicare, it makes even deeper cuts in others, as Tables 1 and 2 indicate.

The Democratic alternative, in contrast, balanced the three priorities of debt reduction, tax cuts, and current national needs. Whether over five or ten years, the Democratic alternative devoted approximately equal amounts of resources to debt reduction, tax cuts, and program improvements.

The difference in emphasis and balance between the conference agreement and the Democratic alternative is displayed in Table 2.

Table 2: Contrasting Uses of CBO's Projected On-Budget Surplus

Figures exclude Social Security; revenue or outlay changes in billions of dollars

	<u>Five-year Totals</u>		<u>Ten-year Totals</u>	
	<u>Rep.</u>	<u>Dem.</u>	<u>Rep.</u>	<u>Dem.</u>
Debt Reduction	12	48	-2	365
Tax Cuts	175	50	875	201
Net Program Changes	-37	56	-126	225

Note: This table does not show the debt service changes that flow from the tax cuts and spending policy changes. Figures in italics are estimates.

Major Differences Between the Conference Agreement and the Democratic Alternative

In brief, the main differences between the conference agreement and the Democratic alternative, as shown in Tables 1 and 2 and elsewhere in this analysis, are as discussed below. Each of these issues is discussed in greater detail in other sections of this analysis.

- **Debt Reduction** — The conference agreement devotes \$12 billion, or 8 percent, of the projected on-budget surplus to debt reduction over five years, while the Democratic

alternative devoted four times as much to debt reduction. Over ten years, the conference agreement devotes nothing to debt reduction while the Democratic alternative devoted 41 percent of the projected surplus to that purpose. (See *Debt Reduction*.)

- **Tax Cuts** — The conference agreement emphasizes tax cuts above all other priorities, devoting essentially all of the projected on-budget surplus to tax cuts over five years and over ten years. Neither the conference agreement nor the statement of managers specifies the purposes of the tax cuts. (See *Revenues*.)

The Democratic alternative, although calling for substantial net tax cuts, devoted about 29 percent of the five-year surplus and 23 percent of the ten-year surplus to tax cuts. The text of the Democratic alternative set forth a number of purposes to which the tax cuts could have been devoted.⁸

- **CBO Summer Re-estimates** — This August, CBO is expected to estimate that the surplus will be larger than it currently projects. Under the terms of the conference agreement, if CBO estimates a larger surplus, the Budget Committee Chairmen may allow some or all of the increase to be devoted to still larger tax cuts. In other words, the five-year tax cut will grow from \$175 billion to some larger amount. Any of the CBO re-estimate not devoted to increasing the tax cut will perforce increase the resulting surplus and therefore the amount of debt reduction. None of the extra surplus can be used to relieve the pressure on non-defense appropriations or otherwise improve federal programs. (In the unlikely event CBO's August forecast shows a smaller surplus than previously forecast, the size of the tax cut is not reduced.)

The Democratic alternative would not have changed its tax or programs policies in any event. If, as expected, CBO were to increase its projected surplus, the Democratic alternative would have devoted all the improvement to extra debt reduction.

- **Non-Defense Appropriations** — The conference agreement cuts non-defense appropriations by \$121 billion in budget authority and \$102 billion in outlays over five years, relative to the existing level adjusted only for inflation, i.e. adjusted only to keep purchasing power constant. (See *Appropriations*.) The Democratic alternative, in contrast, did not make such

⁸ The text of the Democratic alternative is printed on pages 78-90 of H Rept 106-535, and an explanation is available at http://www.house.gov/budget_democrats/papers.htm. Among the tax cuts contemplated by the Democratic alternative are: marriage penalty relief; AMT (alternative minimum tax) relief; EITC and Dependent Care Tax Credit improvements; a new long-term care tax credit; incentives for school construction and renovation; credits or deductions for post-secondary education, medical insurance, retirement accounts, and the employment of welfare beneficiaries and low-income workers; estate tax relief; community development (EZs); and the revenue costs of the patient protections in the Dingell-Norwood Patients' Bill of Rights Act.

cuts. It increased some programs, such as education programs, above such a baseline, and tended to cut only those programs that had one-time costs in 2000, such as the Census Bureau.

- ***Medicare and Social Security Solvency*** — The conference agreement does nothing to extend the solvency of the Social Security or Medicare trust funds. The Democratic alternative, in contrast, transferred \$300 billion of the on-budget surplus to the Medicare Part A (Hospital Insurance) Trust fund over ten years, extending its solvency by as much as a decade. And starting in 2011, the Democratic alternative transferred an amount equal to the reduction in federal net interest payments between 2000 and 2010 from the on-budget surplus to the Social Security trust fund, increasing its solvency by as much as 15 years. (See *Medicare and Social Security Solvency*.)
- ***Medicare Prescription Drugs*** — The conference agreement sets aside \$40 billion over five years for Medicare, the same as the Democratic alternative. But beneath the numbers lie profound differences. To begin with, the Democratic alternative devoted *all* the \$40 billion to a universal Medicare prescription drug benefit. The conference agreement, in contrast, allows an unknown portion of the \$40 billion to be used for other Medicare purposes, such as increased provider payments or Medicare “reform.” In the House, the drug benefit is linked to and apparently contingent on a reform package, although the term “reform” is not defined.

Additionally, the drug benefit in the conference agreement need not be universal or be a Medicare benefit. House Republicans have discussed providing a voucher to low-income seniors assisting them in purchasing a private prescription drug insurance policy, although insurance companies do not currently offer such policies. (See *Medicare Prescription Drugs*.)

Finally, the conference agreement does not use the reconciliation process to enact Medicare changes, which means there is no certain date by which any such legislation must be reported, nor even a requirement that a bill ever be reported. And the bill, if reported, is not protected from Senate filibusters or non-germane Senate amendments. The Democratic alternative, in contrast, used the reconciliation process to make sure the drug benefit would be reported and could move unhindered through the Senate.

In fact, this approach is true throughout the budget — none of the benefit increases in the conference agreement is included in the reconciliation process, while all of the benefit increases in the Democratic alternative were given the protection and guarantee of the reconciliation process.

- **Other Health Benefits** — The conference agreement provides \$400 million over four years to improve access to Medicaid and SCHIP for selected people. The Democratic alternative, in contrast, provided \$9.3 billion or 23 times as much over the same period for Medicaid and SCHIP eligibility expansions, *and* an additional \$7.2 billion for a new long-term care refundable tax credit.
- **Education** — In the education function, the Democratic alternative provided more funding for appropriated programs than the conference agreement in every year. In 2001 the Democratic alternative provided \$4.8 billion more than the conference agreement, and it provided \$19.1 billion more over five years. For 2001, the higher funding in the Democratic alternative would have supported the following: (1) the third installment of the President's initiative to improve student achievement by hiring 100,000 teachers over seven years to reduce the average size of classes; (2) assistance to renovate crumbling schools through loans, grants, and tax credits; (3) doubling the size of the after-school program, enough to allow each low-performing school to provide extended learning services to all their students; (4) increasing Head Start by \$1 billion; and (5) increasing the maximum Pell Grant award to \$3,500. (See *Function 500, Education, Training, Employment, and Social Services*.)

Furthermore, the above figures probably understate the degree to which the Democratic alternative improved upon the conference agreement. To begin with, the conference agreement does not provide enough outlays to support its budget authority, so some of the education funding it purports to provide cannot be used. In addition, the conference agreement requires the Appropriations Committee to make \$5.5 billion in “unspecified cuts” for 2001, which will have to come from actual non-defense programs and may come in part from education funding set forth in the conference agreement. The Democratic alternative does not assume any “unspecified cuts.”

- **Environmental Programs** — For 2001, the conference agreement provides \$800 million less in appropriations for natural resources and environmental programs than the Democratic alternative. Over 2001-2005, the conference agreement provides \$9.2 billion less than the Democratic alternative. The conference agreement does not specify any assumptions regarding the President's Lands Legacy Initiative, but its funding levels leave little room for the President's proposal. In contrast, the Democratic alternative fully accommodated the Lands Legacy Initiative and fenced off the funding to ensure that it would go to conservation programs, and funded the President's other environmental initiatives as well. (See *Function 300, Natural Resources and Environment*.)
- **Programs for Low-Income People** — The conference agreement improves entitlement/tax benefits for low-income people by \$7.7 billion over five years, primarily through an increase in the EITC and an increase in Title XX social service grants. On the other hand, it squeezes appropriated programs servicing low-income people in Functions 500 and 600.

The Democratic alternative, in contrast, increased entitlement benefits for low-income people by \$13.1 billion in outlays *and* as much as \$24.2 billion in refundable tax credits, for a total of \$37.4 billion. These benefit increases were targeted to Medicaid and SCHIP, Food Stamps, Title XX, SSI, the EITC, and the Dependent Care and the Long-Term Care tax credits.

In addition, low-income appropriated programs in Functions 500 and 600 fared \$32 billion better over five years in the Democratic alternative than in the conference agreement. Those functions cover such appropriated low-income programs as Title I education for the disadvantaged, Pell Grants, Head Start, child care, LIHEAP, WIC, and subsidized housing. (See *Low-Income Programs; Function 500, Education, Training, Employment, and Social Services*; and *Function 600, Income Security*.)

- ***Economic and Community Development*** — The Democratic alternative resolution maintained purchasing power for community and regional development programs for all of years 2001 through 2005. For 2001, the Democratic alternative provided \$2.5 billion more than the conference agreement. Over five years, the Democratic alternative provided \$16.8 billion more than the conference agreement. The conference agreement cuts this function by as much as one-third by 2005. (See *Function 450, Community and Regional Development*.)
- ***Transportation Programs*** — Over 2001-2005, the Democratic alternative provided \$2.9 billion more than the conference agreement for transportation programs. Unlike the Republican resolutions, the Democratic alternative increased funding for highways, mass transit, and aviation programs while also preserving the purchasing power of all other transportation programs. (See *Function 400, Transportation*.)
- ***Law Enforcement*** — The Democratic alternative resolution increased purchasing power for justice programs by \$425 million for each year through 2005. For 2001, the Democratic alternative provided \$1.1 billion more than the conference agreement. Over five years, the Democratic alternative provided \$8.3 billion more than the conference agreement. (See *Function 750, Administration of Justice*.)
- ***Veterans' Benefits*** — Over 2001-2005, the conference agreement provides \$500 million less in appropriations than the Democratic alternative. For mandatory spending, the conference agreement parallels the Democratic alternative by increasing Montgomery GI Bill education benefits. However, the conference agreement provides \$700 million less over five years for this purpose than the Democratic alternative did. (See *Function 700, Veterans' Benefits and Services*.)

- ***Military Retiree Health Benefits*** — The conference agreement provides \$400 million in benefits over five years. The Democratic alternative, in contrast, provides \$5.4 billion, or almost 14 times as much, over the same period to enhance the benefits of military retirees over age 65. In addition, the House Democratic alternative placed no conditions on the funding and issued a reconciliation directive to the Armed Services Committee. A reconciliation directive requires the legislation to be reported and protects it from filibusters and non-germane Senate amendments. (See *Military Retirees*.)